

## Non-interest Income Continues to Drive Earnings

### INVESTMENT SUMMARY

The unaudited financial results for the quarter ended March 31 2019 released by Guaranty Trust Bank showed the pattern achieved last year as non-interest income continued to contribute to the gross earnings of the bank. The gross earnings increased by 1.25% to ₦110.33 billion in the first quarter of 2019 (vs. ₦108.97 billion in the first quarter of 2018), mainly due to improved non-interest income during the period. Non-interest income increased by 9.10% to ₦35.84 billion in Q1'19 (vs. ₦28.20 billion reported in Q1'18). Last year, the bank recorded a lower figure for interest income and this trend continued in the first quarter of 2019 as the bank reported ₦74.48 billion for interest income, compared with ₦80.77 billion reported in the first quarter of 2018. Due to lower interest expenses on total deposit and zero interest expenses on debt securities, total interest expenses declined by 22.85% to ₦16.27 billion in Q1'19 (vs. ₦21.08 billion in Q1'18). However, operating expenses increased by 9.10% to ₦35.88 billion in Q1'19 (vs. ₦32.89 billion in Q1'18). Impressively, the bank made a lower provision of ₦0.65 billion for loan impairment charge in Q1'19 (vs. ₦1.64 billion in Q1'18).

The impressive non-interest income and lower impairment charge contributed to higher profit before tax as it rose by 8.29% to ₦56.99 billion in Q1'19 (vs. ₦52.62 billion in Q1'18). A lower tax provision of ₦7.68 billion was made (vs. ₦7.95 billion in Q1'18) and as a result profit after tax improved by 10.37% to ₦49.30 billion in Q1'19 (vs. ₦44.67 billion in Q1'18). Consequently, 12-month trailing EPS increased by 10.62% to ₦6.43, from ₦5.81 recorded in the previous period. Based on the recent figure released by the company, we maintain a **BUY** recommendation on the company's shares at the current price of ₦31.00 as present forward estimate places the company share price at ₦46.35.

Fig. 1: Quarterly results highlights

	1Q2019	4Q2018	1Q2018	Q/q Δ	Y/y Δ
Net Int. Income (₦mn)	58,217	51,792	59,689	+12.41%	-2.47%
PBT (₦mn)	56,985	51,341	52,624	+10.99%	+8.29%
Net profit (₦mn)	49,303	42,416	44,670	+16.24%	+10.37%

Source: NSE, PAC Research

May 14, 2019

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Price:

- Current	₦31.00
- Target	₦46.35

Recommendation: **STRONG BUY**

\* As at Monday May 13, 2019

Fig. 2: Stock data

FYE	December
Price Mov't: YtD / 52wk	-10.01%/-20.02%
52-week range	₦30.90 - ₦45.50
30-day Average vol.	17,892,060
Shares Outstanding ('mn)	29,431.18
Market Cap. (₦bn)	912.37
EPS (₦) - 12months trailing	6.43
DPS (₦) - FY2018	2.75

Source: NSE, Bloomberg, PAC Research

Fig. 3: Key ratios

	Q1'19	Q1'18
Net Interest Margin	9.90%	10.09%
Net profit margin	44.69%	40.99%
Equity multiplier	5.67x	5.55x
Cash/ total Assets	23.70%	19.24%

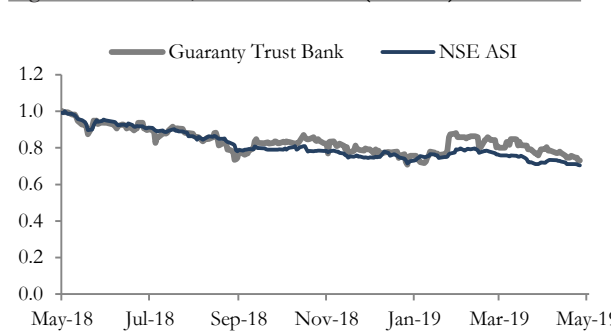
Source: NSE, PAC Research

Fig. 4: Valuation

	FY2017	FY2018	FY2019E	FY2020F
P/E	5.35x	4.94x	4.52x	4.12x
P/B	1.47x	1.59x	1.53x	1.41x
Div Yield (%)	8.71	8.87	9.19	9.68
Payout Ratio	46.61%	43.83%	39.90%	39.77%
Ev/Revenue	1.74%	1.27%	1.27%	1.03%
Rev per share	14.24	14.77	15.51	16.52
ROE	27.11%	32.08%	33.73%	34.30%
ROA	5.09%	5.62%	6.04%	6.62%

Source: NSE, PAC Research

Fig. 5: GTB vs NSE, 52-wk Movement (Rebased)



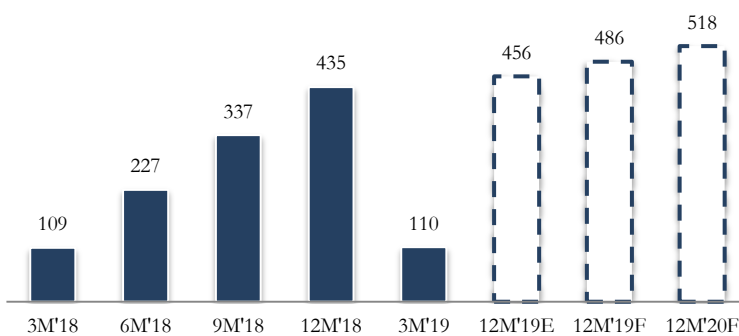
Source: Bloomberg, PAC Research

**Gross earnings increases by 1.25% YoY, driven by non-interest**

**income.** In the first quarter of 2019, Guaranty Trust Bank Plc maintained the record of posting consistent improved top-line, as gross earnings increased by 1.25% to ₦110.33 billion (vs. ₦108.97 billion reported in the first quarter of 2018). The improvement in the top-line can be attributed to impressive non-interest income generated by the bank during the period as it increased by 27.12% to ₦35.84 billion in Q1'19 (vs. ₦28.20 billion recorded in Q1'18). Improved fee and commission income, higher gains on trading investments, progressive mark-up exchange income and massive recoveries are the key drivers of non-interest income during the period under review. However, due to lower interest income from loans & advances, and depleted interest income from investment securities, the bank recorded a setback in total interest income as it declined by 7.79% to ₦74.48 billion in the three-month to March 2019 (vs. ₦80.77 billion in the three-month to March 2018).

*Improved fee and commission income, higher gains on trading investments, progressive mark-up exchange income and massive recoveries are the key drivers of non-interest income...*

**Fig. 6: Gross Earnings – 3M'18-12M'20F (Billion NGN)**



Source: NSE, PAC Research

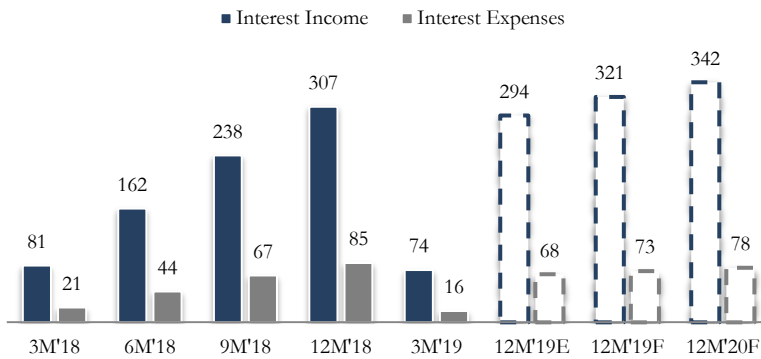
**Interest income declines by 7.79%, due to lower yield regime and**

**contraction of the loan books.** Guaranty Trust Bank Plc recorded an unimpressive figure for total interest income as it decreased by 7.79% to ₦74.48 billion in Q1'19 (vs. ₦80.77 billion in Q1'18). The declined total interest income can be attributed to the declining yields on fixed income securities and contraction of the loan books, reflected in reduced interest income from loans & advances to the customers and lower interest income from investment securities. Interest income from loans and advances declined by 10.09% to ₦43.82 billion in Q1'19 (vs. ₦48.74 billion reported in Q1'18) while interest income from investment securities declined by 13.63% to ₦22.95 billion in Q1'19 (vs. ₦26.57 billion reported in Q1'18). However, the bank reported a lower figure for total interest expenses, driven by lower interest expenses on deposit from customers, reduced interest expenses on borrowed funds and zero debt securities.

*The declined total interest income can be attributed to the declining yields on fixed income securities and contraction of the loan books, reflected in reduced interest income from loans & advances...*

Total interest expenses declined by 22.85% to ₦16.27 billion in Q1'19 (vs. ₦21.08 billion reported in Q1'18). Consequently, net interest income dropped by 2.47% to ₦58.22 billion in Q1'19 (vs. ₦59.69 billion in Q1'18).

Fig. 7: Int. Income and Int. Expenses: 3M'18-12M'20F (Billion NGN)



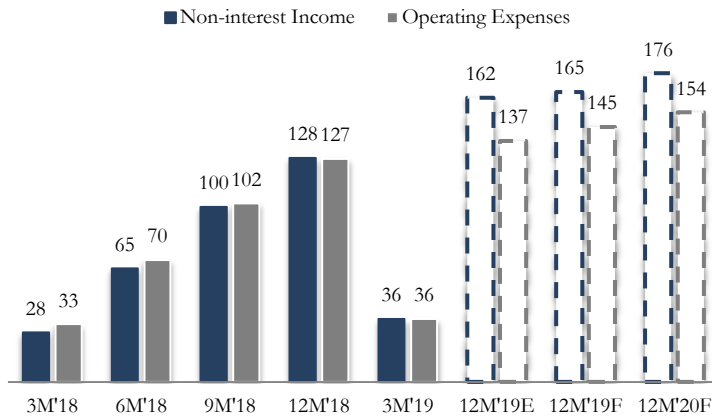
Source: NSE, PAC Research

**Significant improvement in non-interest income; higher AMCON expenses pushes total operating expenses up by 9.10%.** During the three-month to March 2019, the bank reported an impressive figure for non-interest income, which increased by 27.12% to ₦35.84 billion (vs. ₦28.20 billion recorded in three-month to March 2018), mainly as a result of higher fee & commission income, significant gains on trading investments, higher mark-up exchange income and improved recoveries. With higher credit related fee & commission, increased income from account maintenance charges and improved maintenance & bank charges, total fee and commission rose by 21.90% to ₦18.56 billion in Q1'19 (vs. ₦15.22 billion in Q1'18). In addition, the bank recorded a gain of ₦2.22 billion on trading investments & others (vs. a loss of ₦17.31 million in Q1'18) and recoveries of about ₦6.00 billion during the period.

However, the bank reported higher operating expenses of ₦35.88 billion in Q1'19 (vs. ₦32.89 billion reported in Q1'18), resulted in cost-to-income ratio of 38.64% (Q1'18: 38.46%). The growth in total operating expenses can be largely ascribed to 75.92% YoY growth in AMCON expenses as it increased to ₦7.72 billion in Q1'19, from ₦4.39 billion reported in Q1'18. Other variables that contributed to higher operating expenses during the period under review are higher provision for depreciation and amortisation, higher expenses on outsourcing services, increased human capital related expenses and higher consumer service related expenses. Provision for depreciation and amortisation rose by 8.12% to ₦4.59 billion in Q1'19 (vs. ₦4.25 billion recorded in Q1'18). However, personnel expenses declined by 3.62% to ₦9.14 billion in Q1'19 (vs. ₦9.48 billion reported in Q1'18).

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Fig. 8: Non-Int. Income and Operating Expenses: 3M'18-12M'20F (Billion NGN)

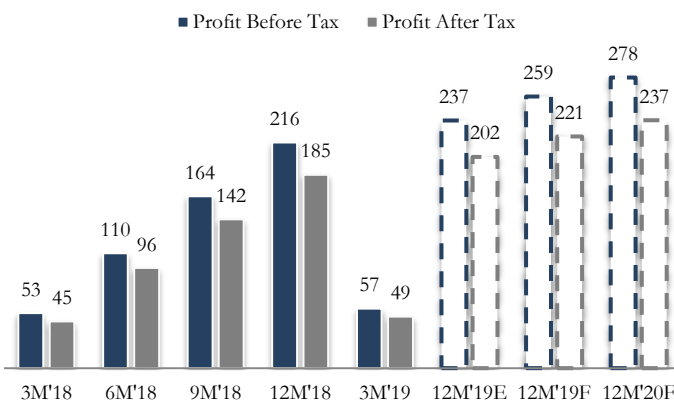


Source: NSE, PAC Research

**PBT grows by 8.29%, due to higher non-interest income and lower impairment charges.** Guaranty Trust Bank has been consistent in recording lower provisions for impairment charge and first quarter of 2019 is not an exemption as the bank made a lower provision of ₦0.65 billion for impairment charge (vs. ₦1.64 billion in Q1'18). With lower provision for impairment charge, higher non-interest income and lower interest expenses during the period, profit before tax increased by 8.29% to ₦56.99 billion in Q1'19 (vs. ₦52.62 billion in Q1'18). The bank made a provision of ₦7.68 billion for tax in the first quarter of 2019 (vs. ₦7.95 billion in the first quarter of 2018), representing a decline of 3.42% year-on-year. Consequently, profit after tax increased by 10.37% to ₦49.30 billion in the first quarter of 2019 (vs. ₦44.67 billion in the first quarters of 2018). Impressively, 12-month trailing EPS increased by 10.62% to ₦6.43, from ₦5.81 recorded in the corresponding period of the previous year

*With lower provision for impairment charge, higher non-interest income and lower interest expenses during the period, profit before tax increased by 8.29%*

Fig. 9: Profit before Tax and Profit after Tax – 3M'18-12M'20F (Billion NGN)



Source: NSE, PAC Research

**Balance sheet remains solid and strong; expectation of impressive interim dividends in H1'19.** Guaranty Trust Bank Plc maintained a strong and solid balance sheet position in three-month to March 2019, reflected in improved total assets and shareholders' funds. Even with lower loans and advances, total assets increased by 1.40% to ₦3.56 trillion in Q1'19 (vs. ₦3.51 trillion in Q1'18). Higher cash & cash equivalents, restricted deposits and other assets contributed to improved total asset during the period. In addition, the bank recorded impressive figure for total liabilities as it declined by 1.44% to ₦2.93 trillion in Q1'19 (vs. ₦2.97 trillion in Q1'18). Consequently, the bank maintained a robust shareholders' fund, which increased by 17.20% to ₦627.18 billion (vs. ₦535.12 billion in Q1'18) and this translated to a net asset per share of ₦21.31 in Q1'19, relative to ₦18.18 billion in the corresponding period of the previous year.

*With improved earnings per share and robust balance sheet, we expect the bank to maintain its impressive historical interim dividends payment.*

In terms of assets quality, NPL ratio and cost of risk closed at 7.03% and 0.05% in March 2019 (March 2018: 6.15% and 0.11%) respectively. In addition, capital adequacy ratio and liquidity ratio are well above the regulatory requirement of 15% and 30% respectively. In the review period, capital adequacy ratio closed at 22.25%, relative to 24.57% in the corresponding period of the previous year while liquidity ratio closed at 47.74% in the period, compared with 55.88% in the first quarter of 2018. With improved earnings per share and robust balance sheet, we expect the bank to maintain its impressive historical interim dividends payment.

Fig. 10: Total Liabilities Vs Net Asset in Q1'19

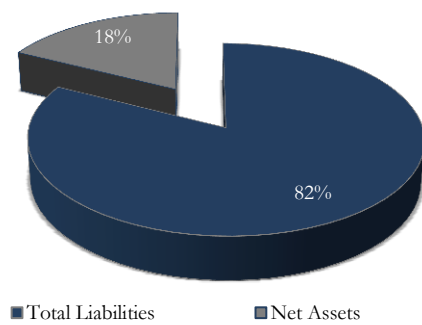
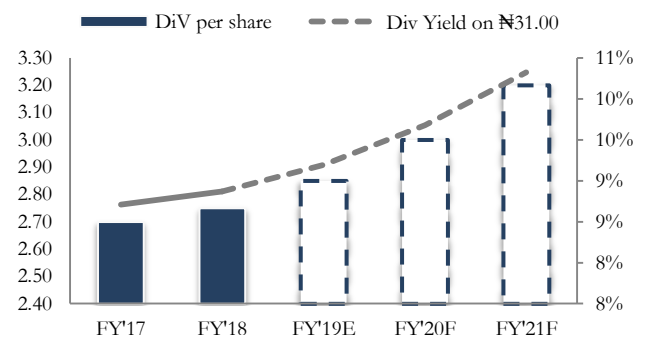


Fig. 11: Dividend Per Share and Dividend Yield (FY'17-FY'21F)



Source: NSE, PAC Research

## Valuation

Our valuation puts the target price of the stock at ₦46.35, representing an increase of 49.51% from the current price of ₦31.00. In arriving at the target price, we employed Residual Income Model. Consequently, we maintain a **BUY** recommendation on the stock of the company.

Our valuation and forecasts considered several factors (both quantitative and qualitative) among which are; the previous financial reports of the company, the current figures released by the company and the performance of the bank in the banking industry

*Our valuation puts the target price of the stock at N46.35, representing an increase of 49.51% from the current price of N31.00.*

**Fig. 12: Share Price History (Naira)**



Source: NSE, PAC Research

**Fig. 13: Statement of Profit or Loss, N'mn**

	2017	2018	2019E	2020F
Gross Earnings	419,226	434,699	456,434	486,102
Change		3.69%	5.00%	6.50%
Interest and Similar Income	327,334	306,963	294,400	320,827
Change		-6.22%	-4.09%	8.98%
Interest and Similar Expenses	-80,670	-84,530	-68,465	-72,915
Change		4.78%	-19.00%	6.50%
Net Interest Income	246,663	222,434	225,935	247,912
Change		-9.82%	1.57%	9.73%
Impairment Charge for credit losses	-12,169	-4,906	-2,282	-2,187
Change		-59.68%	-53.49%	-4.15%
Net Fees and Commission Income	40,732	50,470	58,789	62,610
Change		23.91%	16.48%	6.50%
Trade gains	11,339	24,584	28,299	29,166
Change		116.81%	15.11%	3.06%
Personnel expenses	-32,832	-36,856	-37,884	-40,346
Change		12.26%	2.79%	6.50%
Profit Before Taxation	197,685	215,587	236,570	259,481
Change		9.06%	9.73%	9.68%
Taxation	-29,772	-30,947	-34,799	-38,170
Change		3.95%	12.45%	9.68%
Profit After Taxation	167,913	184,640	201,770	221,312
Change		9.96%	9.28%	9.68%

**Fig. 14: Statement of Fin. Position, N'mn**

	2017	2018	2019E	2020F
Cash and cash equivalents	641,974	676,989	712,037	758,319
Loans and advances	1,449,284	1,262,005	1,235,567	1,315,878
Financial assets held for trading -Available for Sale/fair value tru other compr. Income	23,946	11,315	18,257	19,444
Held to Maturity	96,467	98,620	114,108	121,526
Assets pledged as collateral	58,976	56,777	61,162	65,138
Loans and advances to banks	750	2,995	3,195	3,403
Loans and adv. to customers	1,448,533	1,259,010	1,232,372	1,312,476
Property and equipment	98,670	111,826	109,544	116,665
Restr. deposits & other assets	444,947	508,679	497,513	529,851
Total Assets	3,351,097	3,287,343	3,341,872	3,559,969
Deposits from banks	85,431	82,803	79,876	82,637
Deposits from customers	2,062,048	2,273,903	2,291,298	2,440,233
Other liabilities	224,117	140,448	141,495	145,831
Deferred tax liabilities	18,076	7,786	19,535	20,805
Debt securities issued	92,132	0	0	0
Other borrowed funds	220,492	178,567	182,574	194,441
Total Liabilities	2,731,696	2,711,775	2,743,761	2,914,717
Net Assets	619,400	575,567	598,111	645,252
Total equity and liabilities	3,351,097	3,287,343	3,341,872	3,559,969

**Fig. 15: Profitability Ratio**

	2017	2018	2019E	2020F
Return on Equity	27.11%	32.08%	33.73%	34.30%
Return on Assets	5.09%	5.62%	6.04%	6.22%
Net interest income to Revenue	58.84%	51.17%	49.50%	51.00%
PBT margin	47.15%	49.59%	51.83%	53.38%
Net Profit Margin	40.05%	42.48%	44.21%	45.53%
ROCE	9.36%	10.09%	11.03%	11.43%

**Fig. 16: Asset Utilisation**

	2017	2018	2019E	2020F
Cash/Revenue	153.13%	155.74%	156.00%	156.00%
Revenue to total assets (x)	12.51%	13.22%	13.66%	13.65%
Interest Income / Total Assets	9.77%	9.34%	8.81%	9.01%
Loan Loss Exp./Net Int. Income	4.93%	2.21%	1.01%	0.88%
Loan Loss Exp./After Tax Profit	7.25%	2.66%	1.13%	0.99%
fixed asset turnover	23.54%	0.50%	0.65%	0.65%

**Fig. 17: Liquidity Ratios**

	2017	2018	2019E	2020F
Current ratio	1.23	1.21	1.22	1.22
Cash ratio	0.24	0.25	0.26	0.26
Interest Coverage ratio	2.45	2.55	3.46	3.56
Liquid Assets/Total Deposit	25.17	24.10	25.15	25.89
Loans &Advances/Total Deposit	6.06	6.51	7.14	7.35
Liquid Assets/Total Assets	0.64	0.61	0.60	0.60
Debt/net income	1.31	0.97	0.90	0.88
Debt to asset	0.07	0.05	0.05	0.05
Debt to equity	0.36	0.31	0.31	0.30
Total Liabilities / Total Asset	0.82	0.82	0.82	0.82
Cost to income ratio net interest margin AVERAGED	0.25	0.26	0.26	0.25
Total liabilities/equities	4.41	4.71	4.59	4.52

**Fig. 18: Shareholders' Investment Ratios**

	2017	2018	2019E	2020F
Earnings per share	5.79	6.27	6.86	7.52
DiV per share	2.70	2.75	2.85	3.00
NAVPS	21.05	19.56	20.32	21.92
Earnings yield	18.74%	20.30%	22.19%	24.34%

**Fig. 19: Capital Adequacy Ratios**

	2017	2018	2019E	2020F
Loans and Advances/Equity	2.34	2.19	2.07	2.04
Equity/Total Assets	0.18	0.18	0.18	0.18
Loan Loss Expense/ Equity	0.02	0.01	0.004	0.003

Source: Company's Annual Reports, PAC Research

### Equity research methodology employed in this report

Views documented in this equity research report stem from conclusions reached through the use of multiple valuation methodologies, industry-wide knowledge, company specific information and our near to medium term expectations of industry and company performance, as well as market outlook. Our forecasts are based on a combination of top down and bottom up analysis, alongside historical trends in industry and company financials. Where appropriate, we factored in available forecasts and business direction provided by company management.

Our recommendation tends towards value investing. Therefore, our investment rank gauge—a customized scale we use to judge how well a firm under coverage has performed—is determined using major value parameters as well as relevant ratios and multiples computed with figures from the company's most recent financials.

The variables used to arrive at the company's investment rank cover a wide range of measures which characterize liquidity, operational efficiency, profitability, profit margins, growth, economic viability, gearing, relative valuation ratios, capital structure and management performance. Our investment recommendation is underpinned by the upside or downside potential of a stock under coverage. This potential is estimated by comparing the stock's current market price to its price target and fair value, on a percentage increase or decrease basis as summarized below:

Deviation from current price	Recommendation
>30%	STRONG BUY
10% to < 30%	BUY
-10% to < 10%	HOLD
<-10%	SELL



**IMPORTANT DISCLOSURES**

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